



P A D C O

PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL, INC.

**MUNICIPAL FINANCE FOR ENVIRONMENTAL INFRASTRUCTURE
(MFEI)**

First Year Annual Assessment

Prepared for
**United States Agency for International Development/
Regional Housing and Urban Development Office/Jakarta**

Prepared by
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Washington, DC 20007**

**Contract No. PCE-1008-I-00-2065-00, D.O. 26
August 1995**

PROVIDES GOVERNMENTS AND PRIVATE CLIENTS WITH SERVICES IN PLANNING, HOUSING, MANAGEMENT, FINANCE, ECONOMICS, ENVIRONMENT, GEOGRAPHIC AND OTHER INFORMATION SERVICES, AND TRAINING.

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ABBREVIATIONS & ACRONYMS

ADB	Asian Development Bank
APBN	National Budget
BAKD	Bureau for Regional Finance
BAKM	Agency for Financial and Monetary Analysis, Ministry of Finance
BANGDA	Directorate General for Regional Development, MOHA
BAPEPAM	Badan Pengawas Pasar Modal/Capital Market Supervisory Agency
BAPPENAS	Badan Perencanaan Pembangunan/National Development Planning Board
BMIS	BANGKOTA management information system
BOO/BOT	Build-operate-own/build-operate transfer
BPAM	Badan Pangelola Air Minum/Water enterprise authority
BUMD	Local Government [or local public] enterprise
Cipta Karya	Directorate General for Human Settlements, Ministry of Public Works
Dati I	Local government
Dati II	Provincial government
DIP	Daftar Isian Proyek/Project list for development budget
DitP3	Directorate of On-Lending Management
DSP	Development Studies Project
GOI	Government of Indonesia
HGL	Housing Guaranty Loan [program]
IBAM	Brazilian Institute of Municipal Administration
IISP	IUIDP Implementation Support Project
ILGS	Institute of Local Government Studies, University of Birmingham
INPRES	Instruksi Presiden/Presidential Instruction; locally administered block and earmarked grant programs
IUDP	Integrated Urban Development Program [pilot tested in West Java/Sumatra and East Bandung]
IUIDP	Integrated Urban Infrastructure Development Project
KIP	Kampung Improvement Program
KRIHS	Korea Research Institute for Human Settlements
LIDAP	Local Institutional Development Action Plan
LRGs	Laws, regulations, and guidelines
MDF	Municipal Development Fund
MFEI/HG	Municipal Finance for Environmental Infrastructure/Housing Guaranty [program]
MFP	Municipal Finance Project
MIIP	Market Infrastructure Improvement Program
MIS	Management information system
MOHA	Ministry of Home Affairs
OECF	Overseas Economic Cooperation Fund
PBB	Property tax
PDAM	Perusahaan Daerah Air Minum/Local water enterprise

PERDA	Local regulations
PJM	Medium-term infrastructure planning
PPP	Public-private partnership
PSP	Private sector participation
PUOD	Directorate General for Public Administration and Regional Autonomy MOHA
PURSE	Private Participation in Urban Services [project]
RDA	Regional Development Account
RIM	Regional Investment Model
RTI	Research Triangle Institute
SAPA	Sistem Akutansi & Pengendalian Anggaran/Accounting and Control System
SCUDP	Secondary Cities Urban Development Project
SDO	Subsidi Daerah Otonom/Local Autonomy Subsidy [covers state]
SIKD	Regional Finance Database
SIMPD	Local Government Debt Management Information System
SLA	Subsidiary loan agreement
SMF	Secondary mortgage facility
SMM	Secondary mortgage market
SMWG	Secondary Mortgage Working Group
TDRI	Thailand Development Research Institute
Tingkat I	Provinces [same as Dati I]
Tingkat II	Municipalities and districts [same as Dati II]
TOR	Terms of Reference [document]
TOT	Training of trainers
UDP	East Java/Bali Urban Development Project
UMG	Urban Management Guidelines
UMTP	Urban Management Training Program
UNDP	United Nations Development Program
UPAP	Urban Policy Action Plan
URDI	Urban and Regional Development Institute
USAID	United States Agency for International Development
USL	Urban Sector Loan
WASH	Water and Sanitation for Health [project]
ZOPP	Workshop on Program Planning

Executive Summary

The Municipal Finance for Environmental Infrastructure (MFEI) Housing Guaranty Loan Program provides the Government of Indonesia (GOI) with \$125 million in funding for urban water-related infrastructure over a four year-period. Two associated technical assistance and training projects (the Municipal Finance Project, or MFP, and Private Participation in Urban Services, or PURSE) provide assistance to the GOI in pursuing an ambitious five-year Urban Policy Action Plan (UPAP). The UPAP charts Indonesia's course in decentralizing resources, authority, and responsibility for increased infrastructure and service provision at the local government level.

Annual assessments are carried out by outside experts to determine the degree to which UPAP targets have been met and to identify areas in which the MFEI agenda may require adjustment. This assessment reports on the outstanding progress made during the period under review in achieving reform targets related to the six key UPAP objectives that are the focus of MFEI.

A. Achievement of Targets for the Period

All of the targets for the period under review were well met and the GOI has fully complied with, and in several cases exceeded, its policy reform targets. The key objectives and summary achievements include:

- 1) Strengthening GOI Administrative Apparatus for Urban Management- literally thousands of existing central government issuances were reviewed, catalogued and disseminated to local governments, and summary urban management guidelines for specific functional areas are being prepared.
- 2) Strengthening Local Government Urban Management Capacity- a very well conceived training package has been designed, core courses delivered, and a consortium of universities has been established to institutionalize delivery.
- 3) Implement a Decentralized and Coordinated Process for the Provision and Management of Urban Infrastructure- USAID support has focused on fundamental reforms related to environmental infrastructure provision and regulation.
- 4) Establish a Decentralized and Coordinated System for Urban Environmental Quality Management- an impressive list of accomplishments has contributed to the institutionalization of environmental management methods in local government medium term capital investment plans.

- 5) Increasing the Availability and Effectiveness of Financial Resources for Urban Development- a complex set of interrelated actions is producing key improvements in intergovernmental fiscal transfer systems, local government revenues, and local government debt financing.
- 6) Mobilizing Private Sector and Community Participation in Urban Development- groundbreaking work in risk management, regulatory reform to enhance private participation, and public/private joint ventures is providing the GOI with a wide variety of new opportunities to improve local service provision.

B. Themes Emerging from the Assessment

Undoubtedly the key finding that emerged during the assessment centered on the accelerating pace with which the decentralization process in Indonesia is being implemented. Extremely effective management of the UPAP reform agenda is rapidly leading to a transition from preparatory activities at the national level to actual implementation at the local level. This has near term implications for the program in the following key areas.

- 1) The Need for Information- as the locus of decentralization activities moves increasingly to the local level, the GOI will require improved information in order to effectively manage the continuing process.
- 2) Decentralizing Financial Resources- progress is well advanced in achieving the key UPAP goals of decentralizing both grant and loan funds made available by central to local governments. The need to synchronize these highly interrelated objectives is discussed, as are a number of key issues related to decentralization of the Regional Development Account (RDA) loan fund.
- 3) Fully Mobilizing Private Sector Participation- key aspects related to targeting assistance to mobilize the private sector and the approach to be used in identifying pilot projects are examined.
- 4) Linkages- key reforms from the center will, to be fully effective, need to clearly linked to complementary actions and reforms at the local level. A clearer definition of local government complementary responsibilities and the need to systematically identify weak links in the overall process are discussed.

C. Implications for GOI and USAID

The final section of the assessment summarizes more than 30 observations related to the key UPAP objectives to which MFEI support is primarily directed. All of these observations amount to fine tuning; no major discrepancies, difficulties or issues were identified during the assessment. The degree of specificity of most of the observations contained in the final section of this report is

a testament to the excellent data and frank, open discussions held with GOI and USAID officials and consultants during the course of the assessment.

D. Summary

In summary, the assessment determined that excellent progress has been made in achieving all of the targets identified for the period. Well coordinated management and a high level of continuing dialogue by and between GOI and USAID are resulting in timely accomplishment of an unusually ambitious decentralization program involving very significant central resource transfers.

Continued success will yield a model decentralization process that should be of relevance in many other, similarly situated countries.

The key to this continued success will be close cooperation between the GOI and USAID in insuring that the transition to local implementation of the decentralization program receives adequate technical support and that implementation assessment systems are installed to enable close monitoring of local progress and constraints as they occur. Given the hundreds of local governments involved in Indonesia's decentralization process, continued high levels of donor coordination will be required to most efficiently target technical and financial resources. USAID is well positioned to play a leading role in supporting the GOI in this regard, given the crucial UPAP objectives that the MFEI and its associated technical assistance projects are addressing. As the implementation process at the local level gathers pace over the balance of the MFEI project period, USAID will need to continue the flexible, responsive management approach that has contributed greatly to UPAP accomplishments to date.

Municipal Finance for Environmental Infrastructure

First Year Annual Assessment August 1995

SECTION I: Introduction

This annual assessment of the Municipal Finance for Environmental Infrastructure (MFEI) Housing Guaranty Loan to the Government of Indonesia was carried out over the period June 26 through July 14, 1995. In the course of the assessment more than 20 interviews were conducted with key GOI officials and consultants associated with the MFEI project (see Annex I for the list of persons met).

MFEI was approved by USAID in June 1993 with disbursements of HG funds over a five year period expected to reach \$125 million. To date, \$65 million in HG funding has been authorized of which \$25 million was disbursed in December 1994. A second tranche disbursement of \$20 million is expected in late 1995 or early 1996. Two technical assistance and training programs are associated with MFEI, both of which provide assistance to the GOI in implementing the Urban Policy Action Plan (UPAP) which charts, over a five year period, Indonesia's policy reform agenda to promote decentralization. The Municipal Finance Program (MFP) supports accomplishment of UPAP objectives related to improving intergovernmental fiscal systems, strengthening local government finance systems, and establishing the basis for increased private sector financial participation in provision of urban environmental infrastructure. The Private Participation in Urban Services (PURSE) project focuses upon legal and regulatory reforms to encourage private participation in the provision and financing of urban services, pilot projects which create models for public/private service delivery, and training and communications programs to promote public and private sector awareness of the potential for private participation in urban services. MFEI, MFP, and PURSE are, taken together, a very well designed package of financial and technical assistance providing the GOI with significant resources to support achievement of the ambitious and complex decentralization agenda set forth in the UPAP.

This annual assessment has two main purposes. An external expert is requested, first, to review with all of the key parties progress made in achieving annual policy targets. These targets are very clearly set forth in the UPAP. The second purpose of the assessment is to allow all key participants to reflect upon the continuing appropriateness of established targets, identify emerging priorities, and consider possible realignments in both targets and deployment of resources through associated technical assistance and training activities.

This assessment is, therefore, very much a working document. To be useful, it must not unnecessarily reiterate MFEI documents which provide historical and descriptive frameworks for the project; all of this information is on file with the participating organizations.

The main body of the report contains three sections. First, progress in meeting annual UPAP targets is summarized. Second, issues emerging from interviews are discussed and related to

overall project and UPAP goals. Third, implications and recommendations for the GOI and USAID are set out. This assessment does not include a review of attributable GOI investments related to justification of HG tranche releases. That exercise has been conducted separately; USAID verified that the GOI had made more than \$82 million in eligible investments to justify use of the first \$25 million MFEI tranche.

A sincere word of thanks is due to all of the GOI officials and project consultants interviewed during the assessment for their universal willingness to make available information and time from their busy schedules. Similar gratitude is expressed to USAID staff who were uniformly informative and highly efficient in organizing a rather hectic three weeks. Any errors of omission or misinterpretation in this report are entirely the author's.

SECTION II: Summary of Progress toward UPAP Objectives

A primary purpose of this report is assessment of progress toward meeting the annual UPAP objectives associated with MFEI. This section of the report will review that progress in some detail.

Indonesia's UPAP is the five year policy reform framework which promotes decentralization of resources, responsibility and authority to local governments and enterprises for the provision of infrastructure and services. The comparatively high degree of centralization which has typified Indonesia in the past makes decentralization a complex process. This is reflected in the UPAP by the fact that more than 12 key objectives are to be attained through dozens of medium term goals and specific annual actions through the remainder of this decade. The thoroughness of the UPAP framework reflects a high degree of coordination among key ministries including the Ministry of Finance (MOF), Ministry of Home Affairs (MOHA), Ministry of Public Works (PU), and the National Development Planning Agency (Bappenas).¹

The MFEI and its associated activities most directly address six key elements of the UPAP (the balance of the UPAP objectives are the responsibility of the GOI, either solely or in coordination with other donors). During the course of this assessment it became clear that the annual targets related to MFEI for the period under review have been met. It should be noted that the success in meeting UPAP targets has required an extraordinary amount of work and commitment on the part of the GOI, the MFP and PURSE consultants, and USAID management. All participating parties have shown exceptional willingness to adapt and think innovatively in addressing the complex, intertwined UPAP actions for the year. The extremely collegial working relations apparent

¹ This report will utilize acronyms in both English and Bahasa Indonesia according to common usage among persons interviewed, e.g., the National Development Planning Agency and the Ministry of Public Works are commonly referred to by the Bahasa acronyms of Bappenas and PU, respectively, while the Ministries of Finance and Home Affairs are commonly known by their anglicized acronyms, MOF and MOHA.

between the GOI, consultants and USAID managers are indicative of the high degree of professionalism and competence which typifies the project.

The following paragraphs address the UPAP objectives for which USAID is supplying significant support.

A. Strengthen Governmental Administrative Apparatus for Urban Management

This objective (number 2 in the UPAP) focuses upon strengthening intergovernmental coordination and development of clearer legal and regulatory systems and guidelines to support urban management. The key actions, first year targets and accomplishments for the reporting period are reviewed below.

- 1) **Action:** establish a full-time urban secretariat to support the interdepartmental coordinating committee (2.1A in UPAP).

First year target: urban secretariat established and partially staffed.

Accomplishments: the interdepartmental coordinating committee, known as TKPP, continued to function as the primary coordinating mechanism for the UPAP. The TKPP is chaired by an Assistant to the Minister of State for National Development Planning and includes representatives from the National Development Planning Agency and the Ministries of Finance, Home Affairs, and Public Works. With support from USAID through MFP and from the IBRD through the Institutionalization of Integrated Urban Development (IIUD) project, the TKPP has fulfilled the role of an urban policy secretariat and achieved a high level of coordination among the cooperating agencies. The need to establish a full time secretariat in addition to the TKPP itself is under review and a final determination will be made in 1995/96.

Comment: the need for, composition of and appropriate institutional home for a full time urban secretariat in addition to TKPP requires additional discussion, particularly in light of the transition from policy reform to decentralization implementation as discussed in later section of this assessment.

- 2) **Action:** complete and continuously update an inventory and analysis of all existing laws, regulations and guidelines issued by central agencies of relevance to urban management at the local government unit (LGU) level² (2.3A in the UPAP).

²The term, local government unit (LGU), is utilized in this assessment as a generic term including municipal authorities, local enterprises, and other local authorities.

Target: initial inventory and analysis completed, results disseminated, assignment of continuing responsibility for analysis and dissemination agreed and capacity installed.

Accomplishments: MOHA's Bangda³ inventoried 2,000 potentially relevant laws, regulations and guidelines. Of these, 600 were determined to be essential for urban management and now form a data base in MOHA; capacity to continuously update and disseminate this data base has been established through the MFP-assisted Urban Laws, Regulations and Guidelines Data Base.

Comment: accomplishment of this sizable task will greatly facilitate LGU capability to efficiently determine the central ministry guidance of relevance in key management arenas. Consolidation of these central issuances will support the development of LGU decision making capacity without undue, case-by-case referrals to the center.

- 3) **Action:** prepare detailed urban management guidelines for specific functional areas for use by LGUs (2.3B in the UPAP).

Target: one pilot set of guidelines completed, tested through a workshop, and distributed.

Accomplishments: a spatial planning "cookbook" was completed by Bangda, tested in several workshops, and is now in the process of being finalized for full distribution. In addition, PUOD/MOHA completed and disseminated a compilation of regulations relevant to private sector participation in the water sector.

Comments: in addition to serving as ready references on existing practices, the cookbooks can play an important role in identifying urban management options. It would be particularly relevant in the case of MFEI, therefore, for one of these cookbooks to focus on the full range of possibilities for promoting private participation in provision of local government services and infrastructure; this point is reiterated in several other sections of this report.

- 4) **Action:** improve the existing systems for dissemination of central laws, regulations and guidelines to LGU managers (2.3C in the UPAP).

Target: analysis and recommendations for improvement of dissemination systems prepared; corresponding implementation plan being developed and approved.

³English definitions of Bahasa acronyms, such as Bangda, BAPEDAL, etc., are provided in the glossary front sheet of this assessment.

Accomplishments: an inter-ministerial Urban Management Guidelines working group assessed the effectiveness of existing dissemination systems through a field survey in selected localities. The results of these analyses have been incorporated in the design of the Urban Laws, Regulations and Guidelines Database. A key mechanism to improve dissemination and understanding of central issuances will be promotion of city and institutional twinning and sharing. A workshop on this subject resulted in a feasibility study which outlines steps to be taken in improving information dissemination to and among LGUs.

Comment: support for regular sharing of information and experiences among urban managers within the country can be a very cost effective method to improve operational efficiency. In order to create such a sharing experience, MOHA has recently begun a formal City Sharing program that will bring together municipalities to discuss their approaches to common problems.

In summary, progress in achieving all annual targets under this objective has been satisfactory. Following full establishment of the data base and completion of the cookbooks, the main ongoing central administrative task will be relatively routine updating and dissemination of new guidelines as they arise. Over the medium term it will be very important to ensure that these activities are integrated within the Urban Management Training Program (UMTP), discussed below.

B. Strengthen the Institutional Capacity of Local Governments for Urban Management

MFEI-related support for this critical objective (number 3 in the UPAP) focuses primarily upon design and implementation of a coordinated and self-sustaining Urban Management Training Program (UMTP). Four key actions were involved for the period under review.

- 1) **Action:** design and continuously maintain an interministerial framework for urban management training and technical assistance, providing a basis and focal point for all such training and technical assistance (3.2A in the UPAP).

Target: conceptual framework established, managed and regularly updated.

Accomplishments: GOI has established the position of National Training Coordinator (currently included in the staff complement of MFP) to oversee design and implementation of the UMTP and an interministerial committee chaired by BAKD/MOF provides policy guidance and coordination. An integrated Urban Management Core Course has been completed and delivered, and complementary modules in urban finance, urban services, capital investment, spatial planning and urban environmental management are being developed.

- 2) **Action:** implement the UMTF core course with selected local governments (3.2B in the UPAP).

Target: core course fully prepared and being implemented.

Accomplishments: the core course was prepared, 20 trainers were trained, and the course was pilot tested with 40 local government officials. Following a series of refinements, the core course was transferred to MOHA's training agency for regular delivery; funds for this purpose will become available in the 1995/96 GOI budget. Finally, a decree institutionalizing the UMTF as the integrated local government training curriculum was issued by MOHA earlier in 1995.

Comment: the institutionalization of the UMTF as the central LGU capacity building mechanism will greatly improve the current, rather fragmented situation in which multiple central agencies offer a variety of training for various local officials with little real coordination, monitoring or targeting to special needs and less capable local governments.

- 3) **Action:** preparation of the Urban Financial Management Module of the UMTF (3.2B).

Target: module being developed.

Accomplishment: a short term consultant will complete a detailed curriculum outline for this, the first of the UMTF modules scheduled for development, between June and September 1995.

- 4) **Action:** improved participation by regional universities and other management training institutions in developing and delivering urban management courses and programs (3.2C).

Target: linkage of regional university programs and capabilities with the UMTF.

Accomplishments: Seven regional universities have established a secretariat to support development of academic programs to train the "next generation" of Indonesia urban managers. Two roundtable discussions among the participating universities have been held with a third scheduled for August 1995. Linkages with Virginia Commonwealth University and other U.S. institutions are also being investigated. Two of the participating regional universities have already begun offering new urban management programs.

In summary, design of the UMTF is well underway and the core module has been delivered. A memo of understanding has been signed by the GOI with the Asian Development Bank (ADB) to

provide support for design of the two UMTF modules which fall outside of USAID funding. As a formal course of training the UMTF seems to be extremely well conceived and its development is proceeding satisfactorily. Modules developed with ADB support should be consistent with the existing curriculum structure and delivered in a timely manner. In the case of the financial management module, care will be needed to address the new requirements which will face LGUs as a result of increased INPRES (central budget transfers to LGUs) block grants and RDA (Regional Development Account) reform. The UMTF module on service delivery mechanisms should deal with the broad array of options available to LGUs, particularly with regard to private sector participation.

The larger question of self-sustained delivery of the UMTF is key. MOHA will support delivery of the program, but it would be most efficient for the UMTF to be delivered on a continuing basis through existing regional training and educational institutions without creating parallel capacity under MOHA. Specific components of the UMTF curriculum should, in all cases, be delivered on a continuing basis by those institutions best qualified to deliver each specific course.

In addition, the wide variety of training relevant to urban management being offered by other ministries--notably PU--should eventually be fully coordinated with the UMTF. PU is not among the agencies identified for this objective in the UPAP, although current UMTF plans call for PU to collaborate in the design and delivery of specific future training modules.

Finally, there is a strong argument to be made that formal training is most effective when accompanied by at least intermittent on-the-job technical assistance and periodic sharing of experience. This type of assistance need not be based wholly upon provision of long term resident consultants; intermittent visits by experienced practitioners might be a cost effective approach. Experience sharing may be achieved through the Indonesian association of municipalities, perhaps in conjunction with similar municipal management practitioners' associations in the region and/or the U.S.. Given adequate resources ties should be promoted between Indonesian universities and U.S. institutions with established municipal management training programs. These types of interventions can frequently provide cost effective routes to achieving the ends pursued through formal courses.

C. Implement a Decentralized and Coordinated Process for the Provision and Management of Urban Infrastructure and Facilities, including Adequate Levels of Investment

This objective (number 5 in the UPAP) has focused in MFEI mainly on improving regulations for sanitary landfills, waste water treatment systems and real property development. PURSE appears to be making good progress on all of these fronts.

- 1) **Action:** improve and implement basic technical standards for design, construction and operation of sanitary landfills (5.3E in the UPAP).

Target: updated and improved technical standards completed and approved.

Accomplishments: draft implementing regulations and guidelines were completed and reviewed during a two day technical workshop. The drafts are undergoing internal review within PU and a ministerial decree formalizing their adoption is expected shortly.

- 2) **Action:** improve and implement regulations and technical standards for the design, construction and operation of wastewater treatment systems (5.3F in the UPAP).

Target: improved standards being prepared.

Accomplishments: an issues paper was prepared and disseminated. Inasmuch as sewerage systems are very uncommon in Indonesia, time must be allowed for discussion and consideration of alternatives. Therefore, formulation of guidelines can only proceed following consultation, and the PURSE work program calls for drafting regulations and guidelines in 1996.

Comment: as in most other Southeast Asian nations, wastewater treatment in Indonesia is not well advanced. There is little consumer willingness to pay for such treatment, and in many urban areas the local water utilities are not well enough established to manage waste water treatment. Consumer education will be required, as will innovative cost recovery schemes particularly with regard to residential waste water. Opportunities for commercially viable treatment schemes are most likely, at least initially, to involve industries and hotels.

- 3) **Action:** improve and implement regulations requiring urban property developers to construct and maintain environmental infrastructure as part of all such developments (5.3G in the UPAP).

Target: complete review of existing regulations and guidelines and initiate drafting of improvements.

Accomplishments: a workshop on environmental infrastructure held early in 1995 endorsed the principle that all urban property developers would be required to construct and maintain environmental infrastructure. PURSE is preparing an issues paper examining existing practices and identifying inconsistent and unenforced existing regulations.

Comment: resistance can be expected from property developers to proposals which will significantly increase their responsibilities and investment costs. While regulatory reform is an obvious prerequisite, enforcement of improved regulations is the key to ensuring that new urban property developments are environmentally

sound. This will require a relatively high degree of commitment on the part of local planning authorities as well as supervision responsible ministries. Inclusion in future UPAP annual targets of performance related enforcement benchmarks could strengthen the impact of this important action.

- 4) **Action:** provide MFEI financing for urban environmental infrastructure.

Target: \$25 million.

Accomplishment: the annual borrowing was completed on schedule and, according to a separate review of investments, was fully utilized for the intended purpose of financing environmental infrastructure provision.

To summarize, a number of persons interviewed during the course of this assessment raised the general point that GOI capital investment planning at both the national and local levels tends to overlook the important role of infrastructure and services to be provided by the private sector. The end of Repelita targets for this objective do not include dissemination of improved regulations to the private sector. In fact, and this may already be the case, it is most efficient to include private sector representation throughout the process of reforming regulations which are of potential importance to that sector.

D. Establish a Decentralized and Coordinated System for Urban Environmental Quality Management

This ambitious objective (number 7 in the UPAP) is, in relation to MFEI, fairly narrowly focused upon pricing strategies and improved incorporation of environmental management considerations in urban capital investment programming.

- 1) **Action:** formulate and implement improved pricing strategies for water sector services (7.3A in the UPAP).

Target: initiate study of current pricing of water-related services in larger cities and of social, economic and environmental factors that need to be incorporated into pricing decisions.

Accomplishments: a study of water and water related services pricing in several larger cities was initiated in April 1995. The final report, completed in July 1995, suggested the elements of a model for determining prices for waste water services, and recommended a pilot study of waste water pricing in a specific city in order to adjust the model to Indonesian conditions.

- 2) **Action:** develop and implement guidelines for more proactive consideration of urban environmental quality management in capital investment programming,

including explicit analysis of consumer demand and willingness to pay (7.6A in the UPAP).

Target: initiate preparation of guidelines.

Accomplishments: an impressive list of interrelated actions were undertaken in this regard. Pilot medium term infrastructure investment programming exercises, known as PJMs, were undertaken in two cities with special emphasis upon incorporation of rapid environmental impact assessment methods and increased attention to environmental factors early in the planning process. This process has been institutionalized in guidelines issued by PU and is now a standard requirement for all local governments. Another key innovation in the pilot PJMs was introduction of monitoring and evaluation techniques which will allow a "rolling" planning process to be undertaken annually. Several very useful follow up papers were prepared and a policy review seminar was held for 50 participants including key officials from all ministries involved in MFEI. Consultants will begin production of an urban environmental quality management manual in August at which time another team will carry out further work relating to community participation and effective demand for services.

E. Enhance the Regional Finance System to Increase the Availability and Effectiveness of Financial Resources for Urban Development

Realization of the targets under this objective (number 9 in the UPAP) will largely determine the success of MFEI and the UPAP itself. A large amount of time and effort was well invested by GOI officials their consultants during the period under review to prepare for the fundamental changes in allocation of and access to finance which will underpin the entire decentralization effort in Indonesia. The three crucial medium term goals under this objective include:

- Improvements in the system for allocating intergovernmental capital investment grants known as INPRES (9.1 in the UPAP).
- Reducing LGU reliance on central grants through increases in own source revenues (OSR; e.g. locally generated and collected revenue) and through improved cost recovery and pricing mechanisms for urban services (9.2).
- Establishing a more viable credit system to finance LGU urban infrastructure and services investments (9.3).

The key actions required to achieve this ambitious agenda are numerous.

- 1) **Action:** Improve the overall intergovernmental allocation system incorporating: a) better targeting to low income citizens; b) increased LGU allocative discretion; c)

incentives for increased OSR generation, and d) increased revenue sharing with LGUs (9.1A).

Target: Complete overview study of current targeting policy including evaluation of effectiveness of various grant/transfer mechanisms and recommendations to modify overall system.

Accomplishments: a comprehensive and very impressive analysis of current grant and transfer mechanisms was completed in late 1994. This analysis identified four principle actions to support the decentralization of GOI resources including: a) shifts from central agency budget items, known as DIP, to INPRES; b) shifts within the INPRES budget from earmarked items to block grants; c) a strategy to utilize a portion of INPRES funds as matching incentives for LGUs which increase OSR in excess of established targets; and d) reforms in INPRES administration including movement to a three year planning cycle and improvements in monitoring utilization of funds by LGUs. Key recommendations arising from this analysis will take effect beginning in the 1995/96 budget when major movement of previously earmarked INPRES funding to block grants is anticipated.

While the proposed improvements in central grant/transfer systems are impressive, the actual performance during under the period under review was less so. While the annual budget allocation for INPRES during the period increased by only several percentage points (from slightly less than Rp. 5 trillion to slightly more than Rp. 5 trillion), DIP funding--which is administered by central ministries--rose by more than 12% to more than Rp. 18 trillion (Bappenas, May 22, 1995:7). Targeting of central funds to needier areas has improved in terms of total DIP and INPRES allotments for depressed regions in Eastern Indonesia, but data detailing application of central funds to the neediest portion of the urban population appears to be sketchy.

Comment: the target for the period in support of this key action--preparation of the necessary analyses and recommendations--was fully met. The degree to which these recommendations are successfully implemented over the next 2 to 3 years will require continued interministerial cooperation at a high level and should receive close attention in future assessments.

2) **Action:** improve local government revenues from local taxes and user fees (9.2A).

Target: continuous increase in real per capita local government tax and user charge collections.

Accomplishments: updated data for the period under review will not be available until October, 1995. However, due to a 1994 MOF decree under which 100% of nationally collected local property taxes will be redistributed to LGUs (up from 90% previously) it is very likely that gross OSR will increase at the local level. MOHA has also issued several guidelines aimed at improving local government resource mobilization with particular reference to local enterprise loan management, local water enterprise capacity building and water usage efficiency, and local water enterprise personnel and policy review. It is also important to note that IIUD is providing continuing support to revenue improvement and local institutional development action planning processes.

Comment: in the absence of updated data, it is not possible to measure the degree to which this annual target has been achieved. Improvement in local government revenue generation is, obviously, critical to sustaining decentralized operations; this particular action should, therefore, be revisited when updated statistics are available in late 1995.

- 3) **Action:** improve financial management of local water companies (PDAMs; 9.2D).

Target: program of technical assistance and training in financial management to PDAMs initiated. Expanded MFP study of PDAM financial performance to define potential magnitude and nature of debt exposure, with recommendations.

Accomplishments: following a training of trainers workshop for central ministry (MOF, MOHA, PU and Bappenas) middle managers, three regional workshops were held with senior managers from 48 PDAMs. The regional workshops focused on self-assessment techniques to identify and address financial management weaknesses. MOHA has issued a decree requiring all PDAMs to undertake annual financial performance monitoring and evaluation processes, the results of which are collected by PUOD to form a national data base.

Comments: of the more than 300 PDAMs in the country, about half assumed enterprise (as opposed to line department) status only a little over a year ago. These new water enterprises are also, generally and not surprisingly, the weakest of the country's PDAMs and will require the most intensive assistance particularly as their main sources of capital investment--INPRES and RDA--move to more stringent block granting and lending, respectively, procedures.

- 4) **Action:** improve cost recovery of other (e.g. non-water) local government services including analysis of organizational options, operational efficiency and tariffs (9.2E).

Target: study of revenue collection, service costs, surplus/deficits and organizational options for at least one non-water related service completed. Guidelines for improved cost recovery drafted.

Accomplishment: in addition to undertaking water and waste water pricing studies, terms of reference have been prepared to analyze development impact fee utilization at the local level and prepare recommendations to expand application of this useful regulatory and revenue producing mechanism.

Comment: given the plethora of key reform, training and technical assistance activities underway during the period under review, this particular target appears to be overly ambitious. The focus on, initially, strengthening the performance of 300 PDAMs around the country is correct and probably should not be diluted, at least in the near term, by asking already overstretched local governments to attempt to focus on another major local reform activity simultaneously. In addition, to support the overall goal of improving OSR collections this action should probably focus on improved management of particular revenue sources which are likely to produce the greatest return in the short run. Presumably information required to target the most appropriate revenue sources can be obtained through the IIUD-supported Revenue Improvement Action Plan (RIAP).

- 5) **Action:** carry out an external evaluation of the RDA's operations capacity, its working relations with local governments, capitalization policy and collections record. Prepare a five year institutional development plan for the RDA (9.3A).

Target: Complete evaluation, prepare plan and begin negotiations for agreed RDA reforms.

Accomplishments: a comprehensive evaluative report on RDA summarizing the extensive work of MOF personnel, MFP consultants and others was completed in September, 1994 (R. Johnson, RTI). The study concluded that RDA had met its twin objectives, under Repelita V, of establishing a conduit for local government and enterprise debt financing and supporting these borrowers in developing debt management skills. Under Repelita VI, the first year of which is the subject of this assessment, the Johnson report recommends that the initial accomplishments of RDA be consolidated and improved upon in several important respects:

- RDA should be transformed into a full financial intermediary with a broader capital base not tied to the central government budget, including reflows from RDA lending and other subsidiary loans to local government not initially coursed through the RDA, eventually providing resources

adequate to meet effective demand from local governments and enterprises.⁴

- RDA operational improvements should focus upon loan security and repayments, improving the timeliness and quality of loan origination services, and improved adherence to disbursement schedules
- RDA lending policies improvements should include removal of interest rate subsidies, basing lending criteria on project feasibility and borrower creditworthiness, and maintaining lending commitments within capital availability.

Following completion of the Johnson study, the GOI adopted a two track approach of immediately tightening RDA lending procedures through issuance of a decree, and continuing analysis of the most appropriate combination of long term reforms which will lead, in late 1995, to issuance of another decree addressing, among others, the key issues summarized in the report.

Comment: the annual target with regard to RDA reform was fully met through completion of the Johnson report. The structure of the decree, now being formulated, to deal with fundamental RDA reform is, obviously, the key to future viability of the RDA. Observations in this regard are provided in Section III of this assessment.

- 6) **Action:** improve mechanisms to evaluate the creditworthiness of potential municipal RDA borrowers including routine internal MOF disclosure of RDA borrowers' performance and implementation of procedures for imposing sanctions in cases of RDA loan repayment arrears (9.3B).

Target: prepare analysis of institutional and procedural options for determining municipal creditworthiness and options for possible sanctions. Distribute within MOF a list of existing RDA loans, loan terms, repayment records, and any concessions or modifications granted on outstanding loans.

Accomplishments: the Johnson study included an analysis of institutional and procedural options in imposing sanctions on RDA borrowers in arrears or default. Borrowers' performance indicators were also examined in this study. MOF has initiated a qualitative study of regional loan portfolios focusing on RDA as well as other subsidiary loans to local governments.

⁴ Although no precise estimate of "effective demand" is available at this point, MOF officials opined that local enterprise lending alone could readily absorb between \$35 and \$50 million in additional funding annually.

Comment: discussions have been held with PEFINDO, a newly established credit rating organization, to determine the potential for initiating municipal credit ratings. Such potential clearly exists and, after unsuccessful discussions with two prominent U.S.-based rating agencies, PEFINDO will now receive assistance from a UK-based organization. However, the extent to which this assistance will address local governments and enterprises is unclear; PEFINDO is initially concentrating its rating activities on private sector organizations. Further discussion of municipal creditworthiness assessment is contained in Section III of this assessment.

- 7) **Action:** support procedures for domestic--public and private--capitalization of the RDA including reflows of outstanding loans under RDA management, GOI resources, and private market borrowing (9.3C).

Target: prepare study of options for capitalization of RDA.

Accomplishment: the Johnson study examines a variety of capitalization options including domestic and foreign equity and debt investments, and external loans from bi- and multilateral development assistance agencies. MFP arranged visits for five senior GOI officials to successful municipal development funds in Columbia, Belgium and New York; specific features from each may be adapted in the RDA.

- 8) **Action:** explore alternative short term and long term mechanisms to mobilize domestic credit for local government financing of urban infrastructure investments (9.3D).

Target: define existing options available to municipalities, examine other options, and prepare an action plan.

Accomplishments: an MFP-sponsored National Policy Seminar in July 1994, entitled "Alternatives for Financing Urban Infrastructure and Services," brought together senior local and central government officials, key faculty from several regional universities, and representatives from the private sector. Four main presentations focused upon the role of RDA, betterment levies and development impact fees, financing via private sector investment in urban infrastructure, and direct community financial participation. Subsequently a restricted National Policy Seminar in August 1994, on the use of municipal bonds, was conducted leading to preparation of the "Policy Action Plan for Local Government Bonds in Indonesia." Four PDAMs have now been identified as prime candidates to issue revenue bonds. All four will be assisted in taking preparatory steps leading to the possibility of a bond issue in 1996.

Comments: a high level of effort has been very effectively employed in preparing for local government/enterprise bond issuances.

In summary, the GOI is to be applauded for the substantial progress made during the period under review in pursuit of this very critical objective. The combination of INPRES and RDA reform together with progress in setting the stage for issuance of municipal bonds constitutes a very well designed and coordinated approach to the key objective of increasing finance available to LGUs for responsible infrastructure investments. It is reasonable to predict that continued, coordinated progress on all three of these fronts in the remaining years of Repelita VI would constitute a model financial decentralization process virtually without parallel in other countries. That being said, a number of near term concerns in this regard are addressed in Section III.

F. Mobilize Private Sector and Community Participation in Urban Development

MFEI support for this objective (number 12 in the UPAP) is focused on expanding private sector participation in provision of urban environmental infrastructure and services. Four key actions and associated targets are assessed below for the period under review.

- 1) **Action:** develop risk management systems for "build, own and operate" and "build, operate and transfer" (BOO/BOT) project development and financing (12.1A).

Target: complete analysis of specific risk issues and initiate interministerial dialogue to clearly define GOI policy in this regard.

Accomplishments: PURSE completed a study of the different forms of risk which occur over the project development cycle including descriptions of measures to mitigate and/or spread such risks. A working group was established to review risk management practices and develop methods for risk transfer and sharing. This group includes PURSE, PEFINDO, an MOF-owned securities firm and the Jakarta Stock Exchange Commission. Terms of reference have been developed to prepare a report and handbook on risk management and to develop an appropriate training program. Consultations have also been initiated with Hong Kong and Singapore based investment banks to bring regional experience, especially with corporate bonds, to bear in developing a project risk management system for Indonesia.

Comments: the groundbreaking work PURSE is assisting in defining risk management strategies should find broad application as Indonesian LGUs begin to enter into a variety of debt financing and joint venture arrangements. AID management appears to be doing an excellent job of ensuring that this critical PURSE activity feeds into MFP assistance, particularly in regard to RDA reform and the development of municipal bond instruments.

- 2) **Action:** Institute a financial guarantee mechanism to support local government initiatives in BOO/BOT projects (12.1 B).

Target: Complete an analysis of BOO/BOT financing options and the role of central government financial guarantees. Develop preliminary drafts of regulations and criteria governing issuance of central government guarantees to BOO/BOTs and bond issues.

Accomplishments: the study referred to in 1) above included an examination of the role of central government financial guarantees in attracting private investment in urban environmental infrastructure. A variety of guarantee mechanisms, in addition to central government sovereign guarantees, were examined. The risk management working group is continuing to examine additional alternatives.

Comments: current efforts should continue to insure that PURSE project objectives, such as delivery of pilot BOO/BOT projects by certain dates, do not prejudice the development of sustainable risk management mechanisms.

- 3) **Action:** select and implement appropriate public/private partnership projects as PURSE demonstration projects (12.1C).

Target: potential demonstration projects identified and feasibility evaluated.

Accomplishments: an exhaustive selection process resulted in identification of two water supply projects and a solid waste management project in three cities as candidates for pilot BOO/BOT approaches. Feasibility analyses for these projects are being pursued and selection of a second set of potential demonstration projects is underway.

Comments: the identification of potential BOO/BOT demonstration projects has been difficult. This is understandable given the novelty of this concept at the local government level and in Indonesia generally. PURSE and GOI officials have recently agreed to loosen targeting criteria to allow PURSE to work with, rather than attempt to create, pilot projects which emerge as a result of "natural" selection based on strong local initiative (an example would be the PAM JAYA concession which was being finalized during the course of fieldwork for this assessment). This approach of coopting local initiatives generally should produce better results when dealing with innovative means of mobilizing private sector participation.

- 4) **Action:** establish a legal and regulatory framework to enable private firms and LGUs to implement joint ventures in priority urban services with an appropriate balance of autonomy from and oversight by central government (12.1D).

Target: complete a baseline study of the relevant existing laws, regulations and guidelines, assess constraints and deficiencies, and prepare appropriate draft issuances to facilitate public/private joint ventures.

Accomplishments: following completion of an overview of the relevant issuances, a noted Indonesian law firm was contracted to carry out a three step process including: a) in-depth baseline review of all relevant legislation (completed); b) analysis of omissions and deficiencies in the existing framework (draft under review); and, c) recommended reforms (to be completed in late 1995).

Comment: again, this is groundbreaking work which should find broad application beyond the PURSE focus on delivery of pilot projects. USAID, with its broad portfolio of assistance and wealth of U.S. examples of public/private joint ventures, should seek to capitalize on this work in other areas including health services, education, and population.

SECTION III: Keeping Pace with Decentralization

This section of the paper reviews several key themes which emerged during the assessment. Each of these themes relate to sustaining the decentralization process once it moves (as it is now doing) from the level of national policy reform to actual implementation at the local level. Efforts to date have mainly, and quite rightly, focused upon setting the stage for decentralization through policy reform. This process has spanned many years, but there is strong evidence to indicate that the preparatory phase of Indonesia's decentralization efforts is nearing completion. The reforms of INPRES and the RDA, rapidly multiplying proposals for private joint ventures to provide local services, and increasing emphasis upon local resource mobilization taken together represent a quantum leap in local authority responsibilities. The degree to which central agencies are effective in facilitating this transformation in a coordinated manner will largely determine the success or failure of the decentralization process in Indonesia.

The main objective of decentralization in Indonesia, as in other countries, is to improve the allocation and mobilization of resources through local authorities and communities to more effectively meet local development needs. In this respect the Indonesian decentralization process shares certain key elements with similar processes elsewhere. To be effective, the transfer of central government authority and resources to local authorities must be matched by adequate management capacity and clear responsibilities at the local level. Once the transfer has been effected, local authorities must be accountable for carrying out their responsibilities. In order to induce this type of accountability, systems of incentives and sanctions are generally required. These types of systems can be effectively administered only if reliable information regarding the performance of local authorities is collected and analyzed on an objective basis.

While the key elements cited above are common to most decentralization processes, there is no single "standard" model for decentralization. Each country must adapt the process to its particular set of social, political and economic realities. The decentralization process now well underway in Indonesia is remarkable in several respects, reflecting as it does the particular circumstances of the country. Some of the key aspects of the Indonesian process are discussed below.

First, the decentralization process in Indonesia is, in comparison with similar efforts in other countries, relatively complex. In many countries the focal point for administrative decentralization is appropriate revision of the "Local Government Code", or a similar statutory instrument, which embodies the majority of regulations imposed upon and authority vested in local governments by central government. While Basic Law 74 in Indonesia does incorporate many aspects of such a Code, it has been superseded in many important respects by decrees issued from a wide array of central ministries. The number of ministries involved in local government regulation in Indonesia is, in comparative terms, quite large. Decentralization in Indonesia is, therefore, necessarily complex and this reality is amply demonstrated in the UPAP where numerous revisions and reforms require coordinated action by a number of central ministries.

Second, the decentralization process in Indonesia involves the transfer of authority over very significant resources. In many poorer countries administrative decentralization does not, at least initially, involve significant financial resources simply because those resources do not exist. In Indonesia, on the other hand, the total amount of central transfers and expenditures at the local level approached, in FY 91/92, 19 trillion rupiahs (excluding local own source revenues; MOF Monitoring Indicators 1994: 3). While authority over these resources will not be instantaneously or entirely turned over to local authorities, even a partial near term transfer will have significant impact upon local management capacity.

Third, as in many other countries the decentralization process in Indonesia is somewhat controversial. A variety of vested interests have significant incentives for maintaining the status quo and will closely monitor the decentralization process, seeking signs of failure or weakness to justify recentralization. The task of documenting the progress of the decentralization process must, therefore, be taken up by the central ministries which are most responsible for and committed to the process. The sheer number of involved local authorities will require significant central resources to establish and maintain effective monitoring and information dissemination systems.

Fourth, for the Indonesian decentralization process to succeed in stimulating improved local performance, explicit measurements of success will need to be developed. These performance measures must be sufficiently comprehensive to allow different interest groups--including local residents, central planners, and potential investors--to judge performance of local authorities over time.

Finally, the combination of the complexity of the Indonesian decentralization process, the scale of the resources involved, and the need for detailed information from hundreds of local authorities describing both progress and shortcomings all lead to the conclusion that a number of actions, either not included in the UPAP or addressed only in later years of the current Repelita, require consideration. The following paragraphs reflect observations and insights received during more than 20 interviews conducted in the course of this assessment.

A. The Need for Information

A great deal of information relevant to Indonesia's decentralization process is being collected by a variety of agencies. Cipta Karya's Bina Program department collects annual capital expenditure data on a provincial basis and PUOD collects similar data for local governments and enterprises including PDAMs. The Monitoring Indicators Report, produced by MOF and Bappenas, provides good summary data which is useful in tracking UPAP implementation from the macro level. Bappenas tracks budgeted capital expenditures throughout the country. A number of agencies which provide training possess annual figures for each of their training programs; Bapedal, for instance, has a very precise accounting of the number of individuals trained in three EIA modules. Bangda tracks participants in its enhanced PJM courses as do Cipta Karya and PU, and Badan Diklat for its management training. However, these and other sources of data are not collated and analyzed to provide a detailed appreciation of key indicators of progress in promoting capacity of specific local governments throughout the country to plan, implement and sustain development.

While monitoring for its own sake is often the bane of internationally-assisted development programs, in the case of Indonesia's decentralization process there are at least three fundamental reasons for initiating a unified decentralization monitoring program. The first two reasons relate mainly to management of the decentralization process; the third relates directly to the key objective of improving local government access to private finance.

First, responsible central agencies required detailed data on a regular basis in order to ensure that all local governments are receiving equitable access to the financial and capacity development resources critical to the success of the decentralization process. Indonesia is obviously a large and diverse country. Less developed and more remote local governments can easily lose out in the competition for resources which decentralization will generate. Imbalances in access to decentralized resources can lead to worsening local conditions thereby defeating the purpose of the entire exercise. It is critical, therefore, that central planners have access to reliable data which enables even and equitable distribution of resources, both financial and human, through the decentralization process.

Second, reliable data describing the decentralization process will allow early corrective action in cases where difficulties with the process are detected. The basis upon which central allocation of resources, particularly through INPRES, is made appears well established. However, there does

not appear to be good trend analyses of actual expenditures against budget, of particular importance for depressed localities, nor of training targeted to less capable local governments.

The third fundamental requirement for reliable data on local governments' overall performance relates to mobilization of debt financing, one of the key UPAP objectives for expanding the provision of environmental and other infrastructure and services. The foundation of any sustainable municipal finance market is information. Investors require knowledge of the entities in which they may invest in order to evaluate risk and calculate commensurate premiums. In the absence of reliable information upon which to base decisions, investments will not be made.

The means by which these types of information are gathered, analyzed and disseminated should, as with other UPAP objectives, seek to maximize private participation. In the U.S., credit rating agencies routinely analyze local government financial and other data to evaluate performance and categorize risk. While the breadth of data required to manage Indonesian decentralization would exceed the scope of U.S.-style credit ratings, there is no reason in principle why the two data gathering activities could not be intermingled and be largely, if not exclusively, carried out by private firms.

B. Decentralizing Resources

The centerpiece of the preparatory work for decentralization in Indonesia is clearly the reform of financial resource allocation systems. A great deal of thought, technical assistance and writing has been devoted to this subject, and it is not the purpose of this assessment to recapitulate that work. Instead, the following paragraphs synthesize a variety of viewpoints communicated during interviews.

1) INPRES

Several aspects of the INPRES reforms now underway need to be highlighted. First, and obviously, the shift of significant amounts of funding from earmarked purposes to block grants will place a significant burden upon local government capacity to prepare adequate capital investment programs and project proposals. Care will clearly have to be taken to insure that, as discussed above, local governments with weaker planning and programming capacities do not either a) receive less than their fair share of resources or b) receive funding for poorly prepared projects. Well directed monitoring and coordination of human resource development activities will be required.

Second, the block grant application process itself will need to be carefully and thoroughly worked out, documented and disseminated. Tendencies to under- or overdesign the block grant system should be avoided. Bappenas has already received assistance in this regard and could benefit from additional comparative international experience.

Third, INPRES block grants should over time increasingly leverage local government resources. Given differing levels of resources available to local governments, care will need to be taken to insure that counterpart funding requirements are realistic. Differentiated counterpart funding requirements among local governments will, again, need to be based on reliable data secured through effective monitoring and rating.

Fourth, the potential for competition between INPRES grants and loans through RDA or other sources will need to be addressed. All end users would obviously prefer grants over loans and the expenditure categories for which INPRES funding is available will need to be steadily narrowed toward non-income generating purposes of clear national and local priority. In this respect, it will be important to assist local governments in assessing the potential for recovering investments in services and infrastructure which have not traditionally directly generated revenue.

2) RDA

While the long awaited RDA reform package had not been finalized at the time of this assessment, key elements of the restructured system seem to be generally agreed among senior government officials. The following comments are, therefore, based on a predicted outcome rather than the finished product.

The key medium term Repelita goal related to RDA is support for debt financing of urban infrastructure and services via a market-based RDA and alternative debt facilities. The ministerial decree on RDA reform now being closely scrutinized within MOF is likely to stand in its finished form throughout the life of the MFEI project. It is very important, therefore, that the structure of this decree is sufficiently comprehensive and flexible to allow the most appropriate market-based alternatives to develop over time. Stated another way, the decree should allow for a number of medium term scenarios regarding RDA. The fullest realization of a truly market-based RDA would be the absorption of RDA into a larger municipal finance market which includes a variety of municipal debt financing alternatives. In this sense, therefore, it is important that the decree focuses upon RDA's role as a key transitional device to leverage development of a larger financial market in which LGUs can pick the most appropriate means of finance given specific project and local requirements.

A cornerstone of the restructuring is likely to be consignment of retail RDA lending to the 27 regional development banks (BPDs) around the country. Various GOI officials interviewed during the course of this assessment estimated that between 7 and 10 of the BPDs currently possess adequate capacity to manage RDA retailing. It would seem to be clear, therefore, that the transfer of RDA retailing exclusively to BPDs must be accompanied by coordinated efforts to improve management capacity. Although this requirement does not appear explicitly in the UPAP, it does seem consistent with the requirements of RDA reform, as outlined in the UPAP.

The proposed utilization of BPDs for RDA retailing makes sense from several perspectives. Most local governments and enterprises have existing banking relationships with their local BPDs and Bank Indonesia supervision of these GOI-owned financial institutions could provide a ready avenue for central monitoring of decentralized RDA lending. Exclusion of other banks from RDA retailing may, however, preclude efficient utilization of existing management capacity in provinces where BPDs are less capable.

An approach to RDA retailing that relies exclusively on BPDs could constrain realization of the intended benefits of RDA decentralization in a number of ways. First and most obviously, building capacity to manage RDA loans in up to 20 BPDs around the country will be a significant and time consuming undertaking. Second, in the interim absence of BPD management capacity predicted increases in RDA disbursement efficiency may not be realized. Third, the medium term goal of mobilizing private finance through RDA decentralization may be constrained by preventing other banks and their investors from becoming involved in RDA retailing. Thus, while the use of BPDs, in general, is a workable strategy, there are compelling reasons not to exclude other institutions in some instances.

Another key aspect of RDA restructuring will, according to interviews with senior government officials, be delegation to RDA retailers of the authority to determine the terms of RDA loans to local authorities. As lenders, RDA retailers will naturally seek to impose interest premiums sufficient to cover risk of default plus RDA capital cost plus a reasonable profit margin. While profits and capital costs are readily determinable, quantification of premiums associated with risk will, again, require reliable information describing potential borrowers. Provision of suitable audited financial statements and other information required for RDA retailers to estimate risk should be a primary prerequisite for access to RDA funding.

Clear allocation of responsibility for loans and attendant remedies of the retail banks will be another issue of importance. At present, PDAMs are wholly owned by local governments. As such, any debts incurred by PDAMs could be viewed as contingent liabilities of the owners. Until legislation necessary to more fully differentiate the ownership and management of public enterprises is enacted (PUOD officials expect such a law to be submitted to Parliament later this year) careful consideration must be given to appropriate allocation of risk in RDA loans to PDAMs. The commitment to approve tariff structures adequate to service debts should be guaranteed by LGUs, but the performance risk associated with PDAM management failure to generate revenues adequate for debt service must be guaranteed by the PDAMs. Without this sort of differentiation, neither party has adequate incentives to improve financial performance. Retail bank recourse solely to LGU property tax revenues in the event of default by PDAMs does not sufficiently differentiate responsibility for risk.

While decentralization of RDA retailing to capable local banks will very likely lead to administrative efficiency gains, incentives for improved borrower performance will also be necessary. The most direct incentive in this regard is pricing of money with better performers getting cheaper funds. When total available funding is limited, as is the case in Indonesia, another incentive can be provided to proven borrowers through priority access to additional loans (e.g. "jumping the queue"). Rebates for prompt and/or early payments are another potentially applicable form of incentive. Whatever the appropriate instruments, the combination of incentives and correct apportionment for responsibility for failure will be critical to sustainable RDA operations.

RDA reform must also take into consideration the fact that specific regional retailers will be subject to different levels of risk in their lending due to the fact that borrowers in some regions will be less capable than in other regions. While this differential risk can be compensated for, to some extent, through pricing, there are obviously limits beyond which interest rates cannot productively move. In provinces with generally weaker borrowers, the provincial RDA retailers should have access to some sort of hedging mechanism to spread their inordinate levels of risk. This could be accomplished in a number of ways; one would be to group weaker provinces with stronger provinces and make RDA loans on a mutualized basis among the retailers. This arrangement would both spread risk and encourage interaction between stronger and weaker retailers.

A final consideration arising with regard to RDA reform is that of donor coordination. It will be very difficult for RDA retailers to sustain their operations if project-oriented donor funding at less than market rates continues to be readily available outside of the RDA retailing system. This is not to suggest that all funding for LGU projects must be centralized through RDA; however, onlending terms for SLAs should become roughly equivalent in line with market rates. This will require coordination by the GOI of all major donors active in lending to LGUs. Informal meetings between USAID, the World Bank, and the Asian Development Bank have already taken place regarding local government development projects in Indonesia. However, the GOI should consider convening--and participating in--regular (e.g., semi-annual) sectoral donor coordination meetings during which a variety of key issues, including RDA funding requirements, can be examined.

3) Mobilizing the Private Sector

During the course of this assessment, several issues arose relative to the key goal of mobilizing private sector participation in the provision of urban services. First, a number of persons raised the need for local governments to have access to the full range of available private participation models. It is very difficult for urban managers to select the most appropriate means to promote private participation if all the options are not, at least generally, known. Thus, description of the full range for the edification of MOHA and local governments continues to be necessary.

Second, establishment of pilot projects is a tried and true approach to innovative institutional arrangements in the provision of services and infrastructure. However, selecting pilot projects can be tricky, since these projects are by definition new initiatives without track records. It is generally the case that pilot projects tend to be more successful when they are self-selected, e.g. when local governments or enterprises (for instance) are true proponents of projects rather than targets identified through some abstract selection process. In a country as large and diverse as Indonesia, there will be no lack of self-selected pilot approaches to private participation in provision of urban infrastructure and services if LGUs and the private sector are given a chance to propose initiatives which fall within reasonable guidelines. The GOI's shift in tactics to encourage the increased use of self-selection is an important, worthwhile change.

Finally, as referred to in Section II.3 of this report, sectoral reforms intended to benefit or promote the performance of various sectors usually meet with greater success when the beneficiary sectors are involved in the reform process from the outset. This is likely to be the case with regard to potential private providers of urban services and infrastructure in Indonesia. In many countries this is achieved through advisory panels composed of providers and consumers of the services under discussion. In Indonesia, a clarification of interministerial roles in promoting such public-private dialogues is a necessary first step toward an inclusionary process.

4) Linkages

Most of the foregoing discussion focuses on the key linkages inherent in the urban decentralization process in Indonesia. The findings of this assessment suggest that the detailed preparatory policy reform work necessary to enable decentralization has largely, and very ably, been accomplished. By extension, then, the focus of the GOI, its consultants and involved donors including USAID must now begin to shift from preparatory activities to actual implementation of the decentralization process.

This shift in focus will have several important ramifications. Paramount among these will be increased attention to the linkages between key elements of the process. A lack of synchronization in implementing decentralization program elements often leads to delays and, worse, deleterious outcomes as LGUs struggle to cope with new responsibilities beyond their means. Strong emphasis should be placed on clearly identifying those actions which must be taken by local governments and enterprises to effectively assume their new responsibilities. A few examples of the critical interactions which should be addressed in Indonesia include:

- the linkage between specific capacity enhancements, particularly in less capable LGUs, and movement of significant resources into INPRES block grants;

- establishment of regular, audited financial reporting systems by all LGUs and enterprises prior to commencement of RDA regional retailing;
- definition and implementation by all LGUs of reasonable management arrangements with PDAMs;
- identification of staffing requirements at LGU level including, where appropriate, secondment or reassignment of central ministry staff;
- continuing work on overall revenue enhancement packages by each LGU including targets for specific revenue categories against which performance can begin to be measured;
- definition and demonstrated utilization of mechanisms to ensure effective citizen participation, particularly among low income populations, in LGU PJM programming processes;
- demonstrated linkages between consumer demand surveys and both LGU PJM programming and service pricing structures;
- establishment and utilization of regular consultative processes with private sector representatives concerning service delivery and pricing, investments, and alternative methods of public/private cooperation in delivery.

These are just a few examples of the many actions which LGUs, with central supervision and support, must begin to take. Bringing these actions more clearly into focus through documentation and workshops will assist all participants in the decentralization process to both conceptualize the process in detail and to better monitor progress made in implementation.

A second key ramification of the transition to implementation of decentralization relates to central government oversight of the process. To date, interministerial coordination in determining and achieving policy reforms appears to have been excellent. However, once the implementation process begins in earnest it will be very difficult to continue an exclusively interministerial approach. It is beyond the scope of this assessment to recommend the most appropriate lead agency to supervise the decentralization implementation process at the LGU level. The point is that this responsibility must be clearly identified and resources necessary to achieve the required oversight must be secured.

Finally, the complex linkages within the Indonesian decentralization process highlight the need for a systematic method of identifying weak links or key slippages in overall program implementation. Future installments of this annual assessment can partially fulfill this role,

but the annual timetable and use of outside experts will not produce the kind of detailed cross checking required. The TKPP (or a specially selected sub-committee) could, through its periodic meetings, provide crisp, up-to-date, rolling evaluations of the overall decentralization implementation process. This type of regular evaluation for internal utilization could provide a much sharper focal point within the general UPAP framework. This role of TKPP would not be highly consumptive of either time or resources; meetings could produce minutes (rather than full blown reports) which would highlight key points identified during the course of a day's discussion.

SECTION IV: Implications for GOI and USAID

This section of the assessment summarizes points raised during interviews as well as comments and observations made in Sections II and III of this assessment. Points are presented in relation to the UPAP objectives with which MFEI is associated. All of these points are raised with full knowledge that resource limitations may restrict capacity.

A. Strengthening GOI Administrative Apparatus for Urban Management

- The purpose and home of an urban secretariat should be reexamined. It may be more appropriate, at this point, for TKPP to continue functioning as the overall UPAP coordinating body and to consider establishment of a decentralization monitoring secretariat, probably in MOHA, in lieu of the urban secretariat.
- The urban management "cookbooks" should include a volume which describes the full range of options for private participation in the provision of services and infrastructure.

B. Strengthening LGU Urban Management Capacity

- Linkages between Indonesian universities and appropriate overseas counterpart institutions should be supported, as should regular exchanges between Indonesian and foreign urban managers as a cost effective supplement to formal training and long term consultants.

C. Implementing a Decentralized, Coordinated Process for the Provision and Management of Urban Infrastructure

- Consumer education as to the need for and innovative strategies to recover the costs of waste water treatment systems will require close attention given the almost total lack of precedent for this type of urban service in Indonesia.

- Improvement of regulations governing provision of environmental infrastructure in urban property developments must be accompanied by commitment to and incentives for effective enforcement at the responsible levels of government.
- The process of regulatory reform to increase private participation in provision and management of urban infrastructure and services would benefit from the inclusion of appropriate private sector representatives throughout the reform process.
- Capital investment programming at the local government level needs to take into account infrastructure which will be privately provided.
- Integration of urban environmental quality management (UEQM) in capital investment programming must take account of both consumer willingness and unwillingness to pay for necessary environmental infrastructure, and in the case of unwillingness to directly pay alternative cost recovery schemes must be considered.
- Work on increasing community participation in UEQM should not overlook associated community based small business opportunities (e.g. door to door salvage for recycling, septic tank desludging, labor intensive solid waste collection particularly in dense low income settlements, etc.) which can, by increasing income within the community, contribute to sustained participation. In addition, some of the methods being employed in the village poverty alleviation project (Inpres Desa Tertinggal) managed by Bappenas, particularly the use of internal "Peace Corps" community development workers, could be of value in promoting community participation in urban development.

D. Increasing the Availability and Effectiveness of Financial Resources for Urban Development

1) INPRES Reforms

- Assistance targeted to weaker LGUs will be necessary to insure that capacity is adequate to generate viable block grant proposals.
- Additional international expertise should be provided to Bappenas to assist in detailed design of the INPRES block granting process.
- Block grants should increasingly leverage LGU generated resources over time; a realistic target schedule should be designed in this regard including appropriate incentives, and this schedule should be reflected in UPAP actions.

➤ The allowable applications of INPRES funds in relation to RDA loans will need to be clearly defined. INPRES disbursements should probably be linked, through an incentive system, to each LGU's RDA loan management performance.

2) OSR

➤ The UPAP target for improvements in cost recovery of non-water related LGU services may need to be delayed while available assistance is focused on PDAMs. When technical assistance capacity is available, efforts should be focused on the additional LGU service(s) which will produce the greatest revenue return on assistance investment.

3) PDAM Management

➤ While concentrating assistance on the most viable PDAMs makes sense in terms of preparing for municipal bond issues, the majority of the country's 300 PDAMs have limited management capacity and will require targeted assistance to successfully compete for, and manage, RDA loans.

➤ The issue of clearly defining responsibility for PDAM debt must be addressed in the near term, e.g. prior to implementation of reformed RDA lending. Local government responsibility for repayment of PDAM loans should be confined to political risk associated with LGU failure to approve agreed-upon tariff increases, and PDAM managers must have clear incentives to improve loan management and repayment performance.

4) RDA

➤ The keys to truly sustainable RDA lending will be a) accurate evaluation of risk and associated pricing of loans and b) provision of incentives adequate to motivate LGU borrowers to manage loans well. Improved risk assessment and pricing will presumably be achieved through involvement of retail banks in RDA lending. However, interception of property tax rebates to LGUs in arrears on RDA loan repayments, while providing security to RDA, probably will not, by itself, constitute a sufficient disincentive to provoke remedial measures in errant LGUs. Therefore, design and implementation of positive incentive systems to reward improved LGU and PDAM management should be given very high priority.

➤ Accurate rating evaluations of borrowers will be critical to RDA sustainability and to mobilization of alternative sources of LGU debt

financing. Initiation of LGU rating, preferably in combination with broader performance monitoring, should be a very high priority.

- Benefits to be gained from decentralization of RDA lending will be maximized by utilizing local retailers with the greatest degrees of banking expertise and access to additional sources of capital. RDA capital should leverage private capital for blended onlending by retailers.
- Spreading of risk associated with individual LGU loans through mutual investments and other mechanisms should be encouraged through RDA.
- Prior to commencement of the revamped RDA lending regime, it will be necessary to ensure that other sources of capital available through the GOI for similar investment purposes are brought into line with RDA lending terms (which will presumably be at market rates). This will probably require a higher degree of donor coordination at GOI instigation.

5) Bonds

- Pilot bonds should be issued only on the basis of clear marketability without recourse to special investment incentives or other market distorting arrangements.

E. Mobilizing Private Sector and Community Participation

- Risk management strategies now being defined should receive the widest possible circulation, certainly to include RDA.
- "Natural" selection of BOO/BOT pilot projects should be continued.
- While the focus on BOO/BOT is appropriate, supplemental assistance and research should continue to assist MOHA and other ministries and LGUs as they become familiar with the full range of private sector participation models.

F. The UPAP

- Central ministry responsibility for monitoring implementation of the decentralization process at the LGU level should be clearly identified and incorporated in the UPAP.

ANNEX I:
Persons Interviewed

1. Dr. Gunawan Sumodiningrat	BAPPENAS
2. Dr. Ir. Bambang Bintoro Soedjito MRP	BAPPENAS
3. Dr. Budhy Tjahjati S. Soegijoko	BAPPENAS
4. Prof. Dr. Herman Haeruman	BAPPENAS
5. Prof. Dr. Mubyarto	BAPPENAS
6. Dr. Dono Iskandar Djojosebroto	MOF
7. Dr. Susiyati B. Hirawan	MOF
8. Drs. Suyoto, MA	MOF
9. Ir. Arlen T. Pakpaha, SE, MSS	MOF
10. Ir. Busrori	MOF
11. Drs. Baharuddin, MSS	MOF
12. Ir. Sumitro Maskun	MOHA
13. Drs. Progo Nurdjaman	PUOD/MOHA
14. Ir. Abdurrahman, SE	PUOD/MOHA
15. Drs. Birong S. Tambunan SE	PUOD/MOHA
16. Drs. Sihol H. Tambunan	PUOD/MOHA
17. Ir. Sugiono Sugiri	PUOD/MOHA
18. Ir. Mulyadi Widodo	BANGDA/MOHA
19. Ir. Dadang Purnomo	BAPEDAL
20. Ir. Parulian Sidabutar	PU
21. Drs. Roeslan Zaris	PU
22. Ir. Bambang Murwono Hariadi	PU
23. Ir. Soeharto	PAM JAYA
24. Dr. Jay Rosengard	MFP
25. Dr. Chris Silver	MFP
26. Dr. David R. Barker	MFP
27. Ir. Hana M.N. Soetojo	MFP
28. Dr. Larry Schroeder	MFP
29. Mr. John Strattnr	PURSE
30. Mr. Lindley Hall	PURSE
31. Mr. Mark Williams	PURSE
32. Mr. Joel Kolker	USAID
33. Dr. James Leigland	USAID
34. Ir. Philip Tjakranata	USAID
35. Ir. Edi Setianto	USAID
36. Dr. Robert Aten	USAID
37. Dr. Jerry Barth	USAID

ANNEX II

TERMS OF REFERENCE MUNICIPAL FINANCE FOR ENVIRONMENTAL INFRASTRUCTURE URBAN POLICY ACTION PLAN ANNUAL ASSESSMENT

I. TITLE

Municipal Finance for Environmental Infrastructure (497-HG-006) Urban Policy Action Plan Annual Assessment:

II. PURPOSE

The purpose of this assessment is to provide the Government of Indonesia (GOI) and USAID/Indonesia with a qualitative measure of the progress which the has been made in reforming the GOI's municipal finance system since May 1994. The base line for this assessment is the information contained in the June 1993 Project Paper and Annexes for the Municipal Finance for Environmental Infrastructure Project, the 19 May 1994 Bappenas Report on "Progress in Implementation of the GOI Urban Policy Action Plan," the 1995 edition of that report (soon to be completed by Bappenas), and the November 1994 "Final Evaluation of the Indonesia Municipal Finance and Shelter Program."

This evaluation should also indicate any areas where past performance suggests future difficulties in the continued implementation of the GOI Urban Policy Action Plan (UPAP), dated 13 June 1994, as well as in future implementation of any updated versions of UPAP available at the time of this evaluation.

III. BACKGROUND

A major challenge facing Indonesia is to improve the delivery of its urban service investments, especially for the benefit of low income families. An important means of meeting this challenge is to develop more efficient and equitable systems of municipal finance. Indonesia's rapid urbanization and the magnitude of its many associated problems, coupled with the limited pool of central resources, requires the GOI to continue to develop a more decentralized system of financial planning, with more governments taking greater control over investment decisions. Within this system, local governments will be able to assume more responsibility to mobilize their own resources. In response to these GOI initiatives, USAID and the GOI have designed and implemented the Municipal Finance for Environmental Infrastructure Program (MFEI).

The goal of MFEI is to broaden access to basic services by facilitating the delivery of urban environmental infrastructure on a financially viable and sustainable basis. MFEI is a quick-disbursing financial support mechanism to reinforce the GOI's urban policy agenda. It guarantees loans from the U.S. private sector to the Government of Indonesia (GOI). The GOI invests the Rupiah equivalent of the loans in urban environmental infrastructure (such as water supply, drainage and sanitation, and solid waste disposal) which benefits households with incomes below the urban median.

The GOI's Urban Policy Action Plan, which is integral to this project, focuses on the long-term development of effective programs and policies to further a viable and sustainable finance and credit system for local government. To achieve this effectively, programs and policies included in the plan necessarily also promote: (a) private sector participation in urban services; (b) an indigenous system of education, training and technical assistance in urban management; and (c) urban environmental quality management.

The project is a successor to the HG-funded Municipal Finance and Shelter Program (MFSP), which disbursed loans of \$120 million between 1988 and 1993. MFEI is supported by the \$15 million grant-funded Municipal Finance Project (MFP) and the \$15 million grant-funded Private Participation in Urban Services Project (PURSE), both of which provide long-term advisors, and short-term technical assistance and training for implementation of the Urban Policy Action Plan.

In accordance with the implementation plan for the project, USAID has undertaken a series of assessments of UPAP progress, beginning July 1989. In November 1994, a Final Evaluation was undertaken for MFSP, which also incorporated an assessment of UPAP progress. That evaluation concluded that MFSP served as a model for operating a policy-based sectoral HG program, and led directly to the establishment of MFEI as a second HG program in support of the GOI's evolving urban policy.

The Indonesian Government, USAID/Indonesia, and RHUDO/Jakarta now wish to evaluate the progress which has been made with regard to municipal finance policy since May 1994, and the degree to which the MFEI has assisted the GOI in formulating and undertaking policy improvement. This evaluation will provide the GOI and USAID with a list of issues to be considered in connection with future implementation of the MFEI project, and the on-going associated MFP.

In doing so, the evaluation will necessarily need to (a) determine the extent to which policies developed since May 1994 are sustainable, and (b) reassess the

relevance of those policies to (i) the national policy on urban development, newly restated in Repelita VI, and (ii) the revised Urban Policy Action Plan for MFEI. The evaluation will not include any evaluation of the performance of the MFP Advisory Team.

IV. STATEMENT OF SPECIFIC EVALUATION TASKS

In addressing the issues summarized above, the evaluation consultant will perform the following tasks. The consultant will seek to provide empirical findings to answer the questions identified below, and the consultant's report will provide conclusions and recommendations based on these findings.

Task 1: Preparatory Work

Before departure for Indonesia, the consultant will spend approximately three days familiarizing himself/herself with previous and current literature about the project. The Mission will ensure that this literature is available to the consultant. It includes:

- a. The Project Papers for MFSP and MFEI, and the Project Paper Supplement for MFP/A;
- b. All previous MFSP program Assessments, the Interim Evaluation report, and the Final Evaluation Report;
- c. The two most recent *Urban Policy Action Plan Monitoring Indicators* reports (GOI/MFSP);
- d. The two most recent reports by Bappenas on UPAP implementation progress;
- e. Sections of Repelita VI dealing with urban policy issues;
- f. *MFEI Eligible Expenditures Monitoring System*, by John Taylor for RHUDO/Jakarta and USAID/Indonesia, October 1993.

Task 2: Prepare an Assessment of Policy Action to Date

The consultant will identify and summarize policy action accomplishments from May 1994 to the present, based on urban policy monitoring indicators and reports from BAPPENAS. This review will describe actions taken, policies adopted and changes initiated, and will identify issues which still need to be addressed.

The consultant will update the issues discussed in the November 1994 report of the Final Evaluation of MFSP. The update should include a review of 1994-95 performance, plans for the future, opportunities to

strengthen the program, and relevant critical policy issues impacting the urban development strategy for the remainder of Repelita VI.

In order to obtain the most current information to undertake this assessment, the consultant will meet with and interview key GOI officials responsible for UPAP implementation, including senior representatives of BAPPENAS, and the Ministries of Finance, Home Affairs and Public Works. Other meetings will be held with representatives of the TKKP, MFP Advisors, resident representatives of the World Bank in Jakarta, and the Chief and staff of RHUDO/Jakarta, as well as other USAID/Indonesia Mission staff.

In addition to the documents listed in the description of Task 1, the consultant will review the routine reports of the MFP Advisors, other reports written in support of UPAP implementation, and relevant IUIDP project reports.

The consultant will determine the extent to which the GOI's stated objectives have been achieved with respect to targets stated in the UPAP for:

1. Strengthening and clarifying local government responsibility for urban infrastructure;
2. Implementing a coordinated and decentralized process for programming urban infrastructure investment;
3. Enhancing local government resource mobilization, financial management and involvement of the private sector in infrastructure and service delivery;
4. Establishing effective mechanisms to support municipal borrowing and improving the system for allocating inter-governmental grants;
5. Strengthening the institutional capacity of local governments; and
6. Improving intergovernmental coordination and consultation in urban development.

The consultant should determine what has been accomplished in these target areas, especially since the most recent report on UPAP implementation progress, issued by Bappenas in May 1994; what is the relevance of these accomplishments vis-à-vis current urban problems; whether or not the accomplishments are sustainable; and whether or not GOI progress toward policy objectives has been commensurate with investment of the HG resources.

Task 3: **Identify Emerging Opportunities and Obstacles to Policy Action Plan Implementation**

From the preceding tasks, the consultant will identify emerging opportunities which should be considered in connection with preparation of the next amended Program Implementation Agreement/ Urban Policy Action Plan. In addition, the consultant will identify obstacles, if any, to Urban Policy Action Plan implementation, and propose new approaches to overcoming these obstacles.

Task 4: **Prepare a Report**

The consultant will prepare, in the field, a draft final report that corresponds to the questions in Article IV above, and which corresponds to USAID's required format for evaluation reports. The following sections must be included in the evaluation report prepared by the consultant:

- 1. Executive Summary:**
 - Purpose of activity evaluated;
 - Purpose of the evaluation and methodology used;
 - Findings and conclusions;
 - Clear and succinctly stated Emerging Opportunities and Obstacles to UPAP Implementation.
- 2. Table of Contents.**
- 3. Body of the Report:**

This is usually 30-40 pages, including sections on:

 - purpose and study questions;
 - the economic, political and social context of the project
 - study methods (1 page maximum);
 - evidence/findings of the study concerning the evaluation questions;
 - succinctly stated conclusions drawn from the findings (including lessons learned);
 - recommendations based on the study findings and conclusions.

4. **Appendices**, including:
- a copy of the evaluation scope of work;
 - a list of documents consulted, and of individuals and agencies contacted;
 - more detailed discussions of methodological or technical issues as appropriate.

RHUDO/Jakarta strongly favors concise writing and avoidance of jargon.

This draft final report will be submitted to USAID/Indonesia prior to the consultant's departure from Indonesia. A final report will be prepared after the consultant has returned to the U.S., and had time to assess and incorporate comments made on the draft report. The final report must be suitable for use by RHUDO/Asia and USAID/Indonesia in order to determine the timing of the next HG authorization. The consultant will provide a copy of the final report to USAID/Indonesia, and will include the document on a computer diskette formatted in Word Perfect 5.1, or MS-Word 2.0.

Task 6: Provide Briefings

The consultant will be required to meet with Mission evaluation and RHUDO personnel for a full briefing at the start of the field assignment and, in the second week of field work, to discuss their preliminary findings and conclusions with the Mission. The consultant will also be required to give final exit briefings for the Mission and GOI representatives.

V. CONSULTANT QUALIFICATIONS

The consultant should be familiar with urban issues in Indonesia and Asia. Previous experience of work in Indonesia, as well as a knowledge of Bahasa Indonesia, would be useful but are not required. The consultant should be a Senior Urban Policy Specialist with at least ten years experience in urban policy analysis, urban economics, and municipal finance, as well as previous experience in policy evaluation.

The Mission believes that the outputs described in this Scope of Work can be achieved within a total 23 person-days of input, including 5 person-days spent in the U.S. or home base of the consultant.

A 6-day working week in the field is authorized.

VI. SCHEDULE

The evaluation will begin on or about June 1, 1995. A draft final report should be completed before the consultant departs Indonesia, and the final report should be provided to USAID within two weeks of receiving comments from the GOI and USAID.

VII. LOGISTIC SUPPORT

The consultant will report to the RHUDO Chief and will periodically consult with a representative of the Ministry of Finance. Day-to-day liaison will be provided by the Municipal Finance Project Officer, who will also assist the consultant by providing the literature specified in Task 1 above, in organizing meetings in Jakarta, and obtaining the necessary statistical and other information.

The consultant is responsible for providing his/her own computer facilities. The consultant should be advised that (1) USAID Mission security regulations preclude the use of the consultant's computers on the Embassy compound; and (2) USAID uses a DOS-based system.

The Mission cannot undertake to provide office space, but will provide office space on an as-available basis. The consultant will provide his/her own office supplies and equipment. Secretarial services are to be arranged by the consultant.